



## Treasury Inspector General for Tax Administration

### SCREENING TAX-EXEMPT ORGANIZATIONS' FILING INFORMATION PROVIDES MINIMAL ASSURANCE THAT POTENTIAL TERRORIST-RELATED ACTIVITIES ARE IDENTIFIED

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## Highlights

Highlights of Report Number: 2007-10-082 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) uses a manual process and a limited terrorist watch list to identify instances in which charitable and other nonprofit organizations may be linked to individuals and/or entities whose assets have been frozen because they have committed or pose a significant risk of committing acts of terrorism. As a result, the IRS provides only minimal assurance that tax-exempt organizations potentially involved in terrorist activities are being identified. If the IRS does not use all available information to detect possible links of charities and nonprofit organizations with known or suspected terrorist organizations or individuals, there is a risk that these charities will not be reported to the Federal Government authorities fighting terrorism.

### WHY TIGTA DID THE AUDIT

Uncovering the root of terrorist financing has become one of the biggest challenges facing the United States in the aftermath of the September 11, 2001, terrorist attacks. A significant source of alleged terrorist support has been the use of charities and nonprofit organizations to raise money, move persons and materials, and provide logistical support for the international operations. The possibility that terrorist attacks could be facilitated by charitable organizations exempt from paying taxes threatens to erode public confidence in both the integrity of the charitable community and the ability of the IRS to regulate this community. The objective of this review was to assess the Exempt Organizations function's efforts to identify and work cases involving tax-exempt organizations and/or related individuals potentially involved in terrorist-related activities.

### WHAT TIGTA FOUND

The IRS does not systemically match filing data of tax-exempt organizations against a comprehensive list of potential terrorists to identify instances in which charitable and other nonprofit organizations may be linked to terrorist activities. Instead, IRS personnel manually review all tax-exempt documents and compare information from them to a United States Department of the Treasury terrorist watch list. This list, however, is incomplete compared to the more comprehensive terrorist watch list available for use by all Federal Government agencies. As a result of using a manual process and a limited terrorist watch list, the IRS provides only minimal assurance that tax-exempt organizations potentially involved in terrorist activities are being identified.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Exempt Organizations, in coordination with key IRS and external stakeholders, develop and implement a long-term strategy to automate the matching of filing data of tax-exempt organizations against a consolidated terrorist watch list to initially identify potential terrorist activities related to tax-exempt organizations. In addition, Exempt Organizations function management should evaluate whether more comprehensive terrorist watch lists, including any applicable Terrorist Screening Center information, should be used in conjunction with the Department of the Treasury terrorist watch list during the screening of tax-exempt filing data, to improve the identification of organizations and/or individuals potentially involved in terrorist-related activities.

In their response to the report, IRS officials agreed with our recommendations. They are planning to take adequate corrective actions.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710082fr.pdf>.